Reporting requirements for pass-through of ETS2 costs

Concept note (2nd Draft) – June 2026

1. Introduction

Article 30f(3) of the EU ETS Directive (Directive 2003/87/EC) states that *"From 1 January 2028, Member States shall ensure that, by 30 April each year until 2030, each regulated entity reports the average share of costs related to the surrender of allowances under this Chapter which it passed on to consumers for the preceding year. The Commission shall adopt implementing acts concerning the requirements and templates for those reports […]."*

This note sets out the conceptual design for developing such reporting rules, with the objective of providing meaningful data to assess cost pass-through while minimising the administrative burden on regulated entities (RE), Member States (MS) and the Commission. This concept note is structured as follows:

- **Section 2** outlines a **draft structure** regarding the rules of the Implementing Act pursuant to Article 30f(3) on ETS2 REs' reporting of cost pass-through (CPT) rates. **On this part, we seek feedback from members of the CCEG ETS2 implementation formation.**
- **Section 3** provides an overview of the **different methods** the Commission may use to **analyse** cost pass-through and how REs' reporting and the Commission's analysis of publicly available data may be integrated to carry out cross checks of reported data, gain a more complete picture of market developments and pass-through practices.

This second draft takes into account feedback received from CCEG members on the first draft of this note, as well as feedback from stakeholders, who were consulted on the proposed options in a dedicated event. Based on this feedback, the following clarifications are made:

- The provisions in Art. 30f(3) and this concept note **relate to the pass through of costs to Annex III consumers**.
- The cost pass-through reporting requirements of Art. 30f(3) and discussed in this note relate to **the costs passed through to the direct customer of the RE**, which may be different from the end consumer.

2. Regulated entities reporting of ETS2 cost pass-through

2.1. Overall approach

The reporting of cost pass through (CPT) constitutes an additional reporting requirement for RE, which may impact notably RE with limited administrative capacity and less sophisticated accounting standards and processes. **It is thus proposed that reporting requirements are simplified for small RE**.

- **Standard reporting**: As standard rule, RE would be required to determine their CPT, while providing information on the method and data used would be optional. However, large RE would be required to provide information on the method and data used for the calculation.
- **Simplified reporting:** Member States can allow simplified reporting to small RE, which would be allowed to report a default CPT rate of 100%.

In all cases, no other data than the final CPT rate and a description of the underlying methodology would be reported to ensure confidentiality of commercially sensitive information. The Commission will report on the results of CPT at market level.

In the first draft of this note, absolute and relative thresholds (expressed as tCO_2 annual emissions of each RE and % of each Member State's total ETS2 emissions, respectively) were proposed. MS showed widespread support for differentiating reporting requirements between large and small RE (including possible exemptions for small RE), as well as for a threshold based on annual emission levels. However, there was no consensus among MS on whether the threshold should be set at absolute or relative levels, and on the values for such thresholds. While many stakeholders expressed concerns regarding differentiated treatment of RE, stakeholders overall showed support for setting absolute thresholds (as opposed to relative thresholds) in case a differentiation was to be made.

Based on this feedback from MS and stakeholders, the Commission is considering defining large and small RE in each Member State (market), according to the following approach and distinct criteria based on the RE's emissions in each year:

- **Large RE:** By default, large RE would be defined as those reporting 1 000 000 tCO_2 or more. However, in MS where this threshold covers less than 60% of ETS2 national emissions, the thresholds shall be reduced to ensure at least a 60% emission coverage.
- **Small RE** would be defined as reporting less than 50 000 tCO_2 and thus MS can allow their use of simplified rules.

2.2. Conditions for reporting of CPT

2.2.1. Reported data

Cost pass-through arises when a business changes the prices of the products or services it supplies following a change in its incurred costs. With the start of the ETS2 market, the cost pass through of ETS2 costs would be defined as:

$$cost\ pass\ through\ (CPT)\ rate = \frac{\text{ETS2 costs passed through}}{\text{ETS2 costs incurred}}$$

In order to minimise the RE's administrative burden and to ensure confidentiality of commercial information, all RE would annually have to report just a single aggregated figure, which is the share of ETS2 costs that are passed through in their fuel sale price (CPT rate).

2.2.2. Methodology to calculate CPT

In order to report the CPT rate, RE need to determine (i) the costs related to the surrender of ETS2 allowances and (ii) the ETS2 component embedded in their sales price. While ETS2 costs can be defined more clearly and calculated or approximated in a more precise manner, it appears much more challenging to provide broadly applicable guidance on how the ETS2 price component should be extracted from fuel sale prices.

Rules to define ETS2 costs

To measure and monitor the pass-through of costs, one needs to define which costs can be counted as those 'related to the surrender of allowances', i.e. eligible costs. The costs RE incur when participating in the ETS2 are comprised of the purchase price of the allowances plus ancillary costs, which include MRV costs, registry costs, and costs related to allowance acquisition and trading. In general, it will be necessary to include the definition of eligible costs in a guidance document or include explanation in the reporting template related to cost pass-through reporting to ensure that RE understand what their reporting refers to and which costs should be taken into account.

Based on the feedback received from MS and stakeholders, the Commission proposes to define eligible costs as the incurred cost of **ETS2 allowances, plus any recurring ancillary costs.** In order to keep the administrative burden low for determining the latter, the Commission will aim to develop **default values for ancillary costs**, complemented with the option for each RE to determine RE-specific costs. This balance between low administrative burden and flexibility for each RE was supported by stakeholders.

Rules to define pass-through of ETS2 costs

The ability to extract the component of sale price reflecting ETS2 costs may differ substantially across RE, depending on their price-setting internal and external processes, accounting standards and systems, and administrative capacity.

The first draft of this concept note contained two options on how cost pass through could be defined and calculated. The first option made reference to EU / international accounting principles, but prescribes no explicit rules, while the second option required that reporting be based on detailed information related to e.g. product prices and cost components.

In their first feedback, MS and stakeholders alike indicated strong support for basing CPT reporting on recognised accounting standards, stating that both internationally (IFRS, GAAP) and nationally recognised accounting standards should be applicable as smaller entities may use the latter rather than the former. Further discussions with audit and accounting experts indicate, however, that **no accounting standard[1] exists that is directly applicable to the estimation of CPT** and that the calculation would therefore be specific to each RE based on data from their accounting system. Financial reporting frameworks differ both across Member States and within Member States according to the company size, while heterogeneity of RE's accounting system is even greater. It follows that it is not practicable to set broadly applicable guidance at EU level on CPT calculation based on financial reporting frameworks or companies' accounting systems.

The Commission therefore suggests leaving some flexibility to the RE in the calculation of the CPT rate to cater for individual situations and make use of the best available data in individual accounting systems, while providing general principles, recommended methodologies and data to use, and the possibility for Member States to provide further guidance based on national accounting rules. For

[1] IFRS 14 and 15 were investigated but deemed not useful in this regard.

example, the general guidance would include that the calculation of the CPT should be in line with the definitions and principles described in Section 2.2.1 and rely on national or international accounting standards whenever possible (eg to match relevant sales and eligible costs for a given accounting period). The general guidance would also provide recommended methodological options, such as estimating cost pass-through using a framework that isolates the effect of ETS2 eligible costs on product prices of the RE's customers. Depending on the data available to each RE, methodological options may include:

- **Pre- and post-introduction comparison:** Analyse product prices before and after the introduction of ETS2, controlling for other observable cost drivers, to isolate any price changes plausibly attributable to ETS2-related costs.
- **Cost decomposition of product prices:** Decompose product prices into key cost components (e.g. energy, labour, taxes and levies, ETS2 eligible costs, as well as others). This enables identification of the relative contribution of each component and helps isolate the incremental impact of ETS2 eligible costs.
- **Heterogeneity across consumer segments:** Where necessary and feasible, decompose product prices by type of sectoral use (CRF category), by households or commercial purposes, or by size of the consumer (e.g. annual consumption levels). Such distinction can be limited to the respective methods applied to determine the 'scope factor' for monitoring emissions. As only one CPT rate is reported per RE, differentiated pass-through rates will have to be aggregated to one number using, for example, weighting factors that reflect the importance of the different consumers segments.
- **Internal validation:** Check plausibility by comparing estimated CPT rates with previous experience on CPT of other cost components (both individual or industry-wide).

Based on the guidance, the RE would perform its own calculations, reporting both the CPT rate and a summary of the methodology applied (mandatory for large RE, optional under standard reporting). This approach preserves flexibility by allowing the CPT rate to be determined at the RE level, accommodating their diversity. For small RE, a default CPT rate of 100% can be reported.

2.3. Verification and cross checks

As it is proposed that only the CPT rate is reported by RE, some safeguards need to be in place to ensure quality and accuracy of reported data. Third-party verification is widely regarded as a means to enhance the robustness and reliability of reported data. The initial draft of this concept note therefore suggested that large RE should have their reported CPT rates audited by an independent financial auditor, given the reported data falls under a company's financial information.

However, given the absence of an applicable accounting standard and the impossibility to develop specific guidelines, such an audit is currently not feasible, as auditors require a clearly defined framework against which data can be verified. Without such a formal audit mechanism, RE will instead be required to self-certify their submissions. Moreover, the analysis of aggregated ("top-down") price data may be used for cross-checking and verification purposes (see Section 3 for further information).

2.4. Reporting format

It is preferred that CPT reporting is integrated into the annual emissions report (AER), even though the legal basis is separate. The new AER reporting tab would include the following entry fields:

- **CPT rate as a percentage**
- **Description of the method to determine CPT** (mandatory for large RE, optional for others)

2.5. Summary of proposed options

	Standard reporting	Simplified reporting
Definition of RE size in the context of CPT reporting	RE with reported emissions of at least 50 000 tCO2 (calculated CPT rate) and at least 1 000 000 tCO2* (calculated CPT rate and description of methodology)	RE with reported emissions below 50 000 tCO2
Data reported to CA	1) Calculated CPT rate 2) Description of methodology (mandatory for RE with reported emissions of at least 1 000 000 tCO2*)	Allowed to report default 100% CPT rate
Methodology for eligible cost	EUA 2 costs + ancillary costs (default values provided by COM)	
Methodology for CPT	Individual calculations based on guidance	Allowed to report default 100% CPT rate
Verification / cross checks	Cross-checks and analysis of top-down price series data (by fuel market)	
Reporting format	Integrated into the annual emissions report (AER)	

* Provided that the threshold covers at least 60% of national ETS2 emissions.

3. Commission analysis of cost pass-through

3.1. Analysis of time-series price data

The Commission envisages the analysis of ETS2 cost pass-through based on available time series data of fuel prices in a two-step process:

1. Monitoring the developments of the relevant fuel prices in specific markets / MS and their components using descriptive statistic techniques for the respective reporting year. This includes both analyses that utilise visualisation of the time series in graphs and figures, as well as the estimation of correlation coefficients between the ETS2 allowance price, other input prices and the product prices. These descriptive analyses are easy to implement but cannot establish a clear causal link. Thus, the aim of this analysis would be to evaluate whether observed price changes are in line with allowance price developments and other cost components or whether inconsistencies can be detected.

2. In case there are larger inconsistencies, e.g., substantial price increases that cannot be explained, further analysis could be conducted. A regression analysis (in case this is in scope) or a qualitative analysis based on additional information and data collected at the national or regional level could be conducted, which may also involve national authorities or local market experts. In these cases, the data reported by regulated entities may also play a more important role.

This annual analysis could be based on fuel price data available at several key data repositories. Most important are the EU Weekly Oil Bulletin[2], Eurostat (particularly the Energy dataset, datacode nrg)[3], and the EU dashboard for energy prices in the EU and main trading partners[4]. These repositories provide information on the price for petrol, diesel, heating oil, natural gas and LPG. Information on coal prices is more difficult to obtain. The coal market is less regulated and monitored than the gas and mineral oil markets.

3.2. Integration of bottom-up reported data and top-down analysis and cross checks

The analysis of publicly available price data and information reported by regulated entities may be integrated to gain a better understanding of current market developments, investigate inconsistencies and carry out cross checks of the CPT rates reported by RE.

In particular, it may be possible to compare reported %-age cost pass-through rates to results using publicly available data. As all regulated entities must report their pass-through rate in the past year, the average reported cost pass-through may be determined, possibly weighted by the size (emissions) of each entity. This weighted average can be constructed by country and may then be compared with the results on cost pass-through based on publicly available data. This comparison would allow to check plausibility of the reported pass-through rates. However, as the bottom-up reporting shows only the first pass-through level, a divergence of the two approaches could also mean that excessive pass-through is applied by intermediaries.

[2] European Commission (2025) Weekly Oil Bulletin - Information and maps showing weekly updates on prices of petroleum products in all EU countries.